

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 NSC-04 NSCE-00 INR-01 CIAE-00 ISO-00

RSC-01 TRSE-00 FRB-01 /016 W
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P 141824Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 5701

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 14935

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: ARAB FINANCIAL FLOWS AND EUROCURRENCY DEVELOP-
MENTS

REF: LONDON 12558

SUMMARY: MOST RECENT DEVELOPMENTS INCLUDE CONTINUING
TREND TOWARDS WIDER MARGINS AND GREATER NUMBER OF BANKS IN
LONDON RECEIVING PLACEMENTS FROM OIL PRODUCERS. U.K.
TREASURY ESTIMATES THAT DURING FIRST TEN MONTHS OF YEAR,
OIL PRODUCER SURPLUSES PLACED ON DEPOSIT HAVE TOTALED
41.8 BILLION DOLLARS. END SUMMARY

1. COMMERCIAL AND INVESTMENT BANKING SOURCES REPORT THAT
OIL PRODUCER FUNDS CONTINUE TO FLOW HEAVILY INTO LONDON
WITH LARGE CHUNKS AGAIN EXPECTED CENTERED AROUND MID-MONTH
PAYMENTS. MAJOR U.S. BANKS INDICATE THAT THEY CONTINUE TO
RECEIVE DEPOSITS 100-200 BASIS POINTS BELOW NOMINAL BIDS,
ALTHOUGH ONE OF LARGEST U.S. BANKS REPORTS THAT SIZE OF
THE "DISCOUNT" HAS NARROWED CLOSER TO THE 100 BASIS POINT
FIGURE. GOOD NAME SECOND LINE BANKS STILL RECEIVE FUNDS
WITH BIDS 50-75 BASIS POINTS BELOW NOMINAL. ITALIAN BANKS
REPORTEDLY CONTINUE TO PAY A PREMIUM FOR FUNDS. WE HEAR
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MIXED REPORTS CONCERNING JAPANESE BANKS; SOME SOURCES SAY

THEY STILL PAY A PREMIUM; OTHERS SAY THEY DO NOT. MAJOR U.K. CLEARING BANK REPORTS IT CONTINUES TO RECEIVE HEAVY INFLOWS IN BOTH DOLLARS AND STERLING. RELIABLE SOURCE REPORTS NATIONAL WESTMINSTER PROBABLY RECEIVING MORE PETRO-CURRENCY DEPOSITS THAN ANY OTHER CLEARING BANK, WITH BARCLAYS NEXT IN LINE. MARGINS OVER LIBO BEING CHARGED BY BANKS TO BORROWERS REPORTEDLY STILL ON AN INCREASING TREND, MINIMUM 1 -- 1-1/2 PERCENT OVER BEING QUOTED ON BORROWING AT 6 MONTHS MATURITY AND BEYOND.

2. H.M. TREASURY REPORTS IN CONFIDENCE THAT THERE IS STATISTICAL EVIDENCE TO PROVE THAT OIL PRODUCERS ARE WIDENING THE CIRCLE OF LONDON BANKS WITH WHICH THEY PLACE EURO-CURRENCY DEPOSITS. BASED ON INFORMAL SURVEY MADE BY BANK OF ENGLAND IN LATE OCTOBER, EVIDENCE IS THAT:

KUWAIT NOW USES 73 BANKS--AN INCREASE OF 21 SINCE MAR.

SAUDI ARABIA USES 31--AN INCREASE OF 9.

IRAN USES 53--AN INCREASE OF 12.

IRAQ USES 20--AN INCREASE OF 6.

LIBYA USES 19--AN INCREASE OF 5.

ABU DHABI USES 24--AN INCREASE OF 13.

NIGERIA USES 25--AN INCREASE OF 6.

MOST OF THE NEW ACCOUNTS HAVE BEEN OPENED WITH U.S. & JAPANESE BANKS.

3. BASED ON CONVERSATIONS WITH AND INDICATIONS RECEIVED FROM PRODUCERS, H.M.T. STAFF SOURCES BELIEVE BILATERAL BORROWING ON BEHALF OF U.K. GOVERNMENT COULD BE MADE WITHOUT DIFFICULTY FROM SAUDI ARABIA, KUWAIT, QATAR, AND ABU

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TO SECSTATE WASHDC PRIORITY 5702

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 14935

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DHABI. OUR SOURCES SAY THAT U.K. HAS NO IMMEDIATE INTENTION OF TAPPING THESE POTENTIAL LENDERS; IT STILL HAS \$2 BILLION TO DRAW FROM LOAN ARRANGED THROUGH MARKET (LONDON 14460). IT DOES TAKE SOME REASSURANCE FROM CONVERSATIONS WITH PRODUCERS THAT FUNDS WOULD BE AVAILABLE AT BETTER THAN CURRENT NOMINAL MARKET PRICES. ON THE OTHER HAND, ISSUES BY U.K. PUBLIC BORROWERS THAT CARRY H.M.G. GUARANTEE ARE BEING HELD BACK FROM THE MARKETPLACE BECAUSE OF U.K. TREASURY RELUCTANCE TO PAY THE HIGHER SPREADS OVER LIBO MENTIONED ABOVE; AT MINIMUM, U.K. DOES NOT WANT TO BE THE FIRST MAJOR OFFICIAL EUROPEAN BORROWER IN PRIVATE EUROMARKETS TO AGREE TO PAY MARGINS OVER ONE PERCENT.

4. H.M.T. STAFF CURRENTLY ESTIMATE THAT PLACEMENT OF OIL PRODUCER SURPLUSES DURING JANUARY-SEPTEMBER AND JANUARY-OCTOBER 1974 WERE AS FOLLOWS:

PLACEMENTS OF OIL PRODUCERS IN BILLIONS OF DOLLARS		
	JAN.-SEPT.	JAN.-OCT.
IDENTIFIED STERLING IN U.K.	4.2	4.9
OTHER CURRENCIES IN U.K.	10.7	11.9
IDENTIFIED DOLLARS IN U.S.	8.4	9.5
UNIDENTIFIED	7.2	15.5
TOTAL	30.5	41.8

THE POUND/DOLLAR CONVERSION RATE USED IS \$2.33. LARGE JUMP IN UNIDENTIFIED PLACEMENTS FROM SEPTEMBER TO

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OCTOBER PUZZLES H.M. TREASURY, ALTHOUGH IT HOPES TO OBTAIN ADDITIONAL INFORMATION ON THIS SCORE WITHIN THE NEXT TWO TO THREE WEEKS.

5. INFORMATION FROM H.M. TREASURY IN PARAS 2,3 AND 4 ABOVE SUPPLIED TO U.S. TREASURY REP ON PERSONAL AND CONFIDENTIAL BASIS. PLEASE TREAT AS NOFORN.

6. CAVEATS ON INFORMATION FROM MARKET SOURCES CONTAINED PARA 10 REFTEL REMAIN VALID.

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